29 July 2016

The Hon David Davis MP
Chair
Legislative Council Environment and Planning Committee
C/O The Secretary, Environment and Planning Committee
Parliament House, Spring Street
EAST MELBOURNE VIC 3002

Dear David,

Submission to the Legislative Council Environment and Planning Committee

Please find enclosed the Victorian Local Governance Association’s (VLGA) submission to the Legislative Council Environment and Planning Committee regarding its Inquiry into Rate Capping.

Should you wish to discuss these matters further, please do not hesitate to contact me on

Regards,

Dr Andrew Hollows
Chief Executive Officer
Victorian Local Governance Association
Submission to the Legislative Council Environment and Planning Committee
Inquiry into Rate Capping Policy

July 2016

The Victorian Local Governance Association (VLGA) welcomes the opportunity to provide evidence to the Legislative Council Environment and Planning Committee (the Committee). The VLGA is a peak body supporting councils, councillors and the community.

The VLGA provides a range of advocacy and support to councils around rate capping and the variation process and has worked consistently throughout 2016 with those councils which have undertaken a variation process for the financial year 2016/17.

The following information addresses the Committee’s Terms of Reference, specifically where rate capping adversely impacts councils’ viability, services to local communities and the provision of local infrastructure.

Second Report into Rate Capping Policy

The VLGA notes the Committee’s Second Report into Rate Capping Policy of June 2016 and, particularly, supports the Committee’s findings 2, 3, 4 and 5.

The VLGA supports the Committee’s recommendation (2) that the Minister for Local Government should announce the rate cap earlier. An earlier rate cap would assist a council in preparing its upcoming budget in any given year and also provide more time for those preparing to undertake a rate cap variation application. However, this still does not address the fundamental problem of the imposition that capping poses upon local democratic governance.

A rate cap set each year, regardless of how early in the year it is set, undermines long-term financial planning. Council’s ability to plan for the infrastructure and service needs of their municipality is compromised by having to wait each year to find out at what level the State Government has chosen to intervene.

The VLGA welcomes the Committee’s recommendations 3, 4, 5 and 6. This submission provides further information regarding the Essential Services Commission (ESC) and the variation process. The process in 2016 has been not been without its flaws – of particular concern is (i) a belief that the ESC over-stepped its role and (ii) weaknesses it its understanding of the sector and the way in which it conducts its business.
Further, the VLGA notes Recommendation 7 where by the Committee recommends that the ESC clarify its advice to councils regarding the responsible use of debt. The VLGA does not support the need for the ESC to clarify its advice in so much as to say that it is not for the ESC to provide advice to the sector around the appropriate use of debt. This is not for the ESC, the State Government or the Committee to recommend. It remains the purview of local government as a democratically elected tier of government in consultation with its community.

**Rate Capping**  
**Impact of Rate Capping**

Rate Capping continues to impact local communities across Victoria. Given the diversity of local government, this has taken different forms in different councils. What has become clear is the cumulative effect of rate capping, which is consistent across all councils.

The following examples address where rate capping has adversely impacted infrastructure or service delivery in 2016 including for metropolitan, regional and rural communities. Prior to the introduction of rate capping, most councils had projected an average yearly rate rise of around 4 to 5 per cent. The introduction of a 2.5 per cent cap on the average rate rise in 2016/17 has resulted in councils identifying infrastructure or services which have been scaled back or reduced, deferred or cancelled.

One metropolitan council has been forced to scale back services it provides to community organisations such as Neighbourhood Watch. This council has been forced to reduce its spending on community organisations including in-kind support for hall hire in 2016 as a direct result of rate capping.

Another, has identified it is considering introducing waiting lists for residents that require home and community care services, as a result of ongoing cost shifting and the impact of rate capping.

Councils right across Victoria are having to consider service delivery expectations in light of rate capping. This is evident in metropolitan, regional and rural councils. The State Government’s policy does not address the cost of living as much as it impedes investment in local communities.

The City of Casey has identified one project which will not go ahead and three others which will be deferred as a result of this year’s rate cap. The Council will not proceed with the Hunt Club football and recreation facility whilst the Autumn Place Family and Community Centre, Casey Fields Regional Community Soccer Fields and Glenelg Football and Cricket Recreation Facility will not proceed as programmed\(^1\).

Another, Golden Plains Shire Council, has been forced to freeze new services and defer any moves for service improvement. The Council has also introduced a freeze on staff, relying instead on its volunteer work-base to support ongoing services which is unsustainable. It has also shelved its plans for the redevelopment of the Bannockburn Customer Service Centre².

These are just a few examples where investment in local infrastructure and services has already begun to be withdrawn or deferred. These are not abstract projects but real, tangible investments which serve the public good and support local communities and community organisations. The VLGA would note that the State Government consistently identifies infrastructure and capacity-building as one of its key priorities; however its introduction of rate capping works against this intent.

There is a misconception that councils raise rates above the necessary limit. That is not the case. Most councils have a long term average rate rise projected of around 4.5 per cent. This is in line with the costs required to undertake significant infrastructure investment and service delivery. It is the VLGA’s experience that local government does not needlessly increase revenue intake through rates but seeks to fund the cost of infrastructure and services either required through statutory obligation or in consultation with its community. In this light, a rate cap is not an instrument to contain inflation but rather a device to control necessary revenue increase.

A rate cap set at near CPI levels will cause a cumulative reduction in the level of new infrastructure spending, service levels and asset renewal over time. This is true of each and every council in Victoria.

One council has provided that:

*The challenge of remaining within the rate cap while continuing to maintain services and infrastructure investment at existing levels will become more challenging in future years.*

Another provided:

*Available funds for capital works expenditure has also been reviewed and whilst the focus remains on supporting the required renewal expenditure program, less funds will be available for new and upgrade capital works expenditure projects.*

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Long term outlook

The reality of a near CPI-indexed rate cap is that, over time, local communities will be required to forgo new and improved infrastructure and services. That is not to say that councils will not fund new infrastructure; rather, the level at which it is provided will be reduced and likely to fall below community expectation. In addition, councils will be forced to reduce the pace of community assets renewal which will result in additional costs over the long term to both councils and the community. This is been so clearly demonstrated through the experience of rate-pegging in NSW with disastrous consequences for communities.

The VLGA is mindful that the examples highlighted in this submission are a result of a 2.5 per cent rate cap. The VLGA questions what would occur if the State Government set a rate cap for 2017/18 below that level, possibly as low as 1.8 per cent.

Eventually, these matters will force a future State Government to remove rate capping. At that time, councils will more than likely be required to undertake significant rate rises sustained over time in order to recover costs forgone under the Fair Go Rates policy.

View of Policy Changes in the Community

One significant issue which has become apparent is the lack of understanding and awareness of this policy amongst the broader populace and what it will mean, in practice, for ratepayers. Many residents have assumed that rate capping means that the costs of their own individual rates will not exceed 2.5 per cent. This is untrue.

The legislation allows for individual rate rises in excess of 2.5 per cent, so long as the average rate rise across the municipality remains below this number. This has led to confusion for some ratepayers when receiving their notices and unnecessary conflict because of poorly explained policy.

Many councils have sought to address this issue, however these actions have been undermined by the ongoing messaging coming from the State Government. From the outset, the State Government has sought to contain the broader discussion about rate capping and its impact on local residents to a populist mantra.

The Minister for Local Government, the Hon Natalie Hutchins MP, has consistently provided commentary on the policy which, in the VLGA’s opinion, seeks to paint local government as having delivered excessive rate rises in contrast to the interest of local residents and that councils could reasonably absorb a CPI-indexed rate cap.

In fact, the VLGA has been unable to cite commentary from the Minister which explains the broader policy implications. Commentary identified to date remains solely concerned with a justification of the policy and comments to the effect of those outlined above.
South Australian Experience

For the interest of the Committee, the VLGA notes that a similar push to implement rate capping in South Australia has recently been rejected. There, the Minister for Local Government, the Hon Geoff Brock MP, responded to the decision by saying:

*It’s unrealistic and unsustainable to put a cap on what rates councils can come up with. With the more red tape and bureaucracy we put onto local councils, the more cost factor is going to be there*.

The VLGA strongly supports and endorses these comments and draws parallels to current policy in Victoria. It remains the position of the VLGA that rate capping is unsustainable and will adversely impact local communities.

Variations
Conduct of the Essential Services Commission

Information provided to the VLGA by councils which have undertaken a variation application suggests that the Essential Services Commission (ESC) has demonstrated that it has a preconceived notion of how local government operates, one which is not based on a strong understanding of the sector and of local government as an elected tier of government. This is concerning as the role it plays has a profound impact on local communities and councils.

Rate cap variations are meant to be a genuine process to seek a varied rate cap to support local infrastructure and services. What has become evident is that the process undertaken by the ESC does not deliver in the best interest of local communities.

The information provided by councils would suggest that the ESC operated with predetermined views of local government and with the intent to influence policy beyond that of its original purpose. The VLGA questions the legitimacy of policy being directed by the ESC, an unelected administrative body, rather than a collaboration of both State and Local Governments.

In some instances the ESC provided unclear and unreasonable timeframes by which a council had to respond yet did not employ the same process for others. This creates the impression of bias and risks undermining the process altogether.

A number of councils have expressed a concern that the ESC did not understand the process of managing and forecasting council budgets.

The VLGA believes that the ESC did not fully understand the broader circumstances for the reasonable use of debt in the local government sector and also frustrated

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councils by requesting information which had already been provided in the application or misinterpreted.

Another concern of councils has been how the ESC viewed service delivery and in particular, service reviews. Service reviews are not always about saving money and finding efficiencies; they are also about the assurance of quality and an understanding of need vs delivery. The ESC, however, clearly considers service reviews as vehicles to finding savings and this has been reflected in their dealings with councils.

**ESC Determinations**

The ESC handed down its determinations on the rate cap variation applications for 2016/17 at the beginning of June 2016. The ESC approved 5 applications in full, 1 in-part and rejected 3. At that time, the VLGA noted that more than 500,000 residents would be worse off due to the State Government’s rate cap policy and the decision of the ESC.

The 2016 variations have not delivered fair and equitable outcomes to the community. For this reason, the VLGA has called on the Minister for Local Government to act to remedy these matters.

The VLGA firmly remains of the view that the ESC should have a clearly defined role and for its determinations to be consistent with the interests of local communities. This has not been the case with all applications submitted in 2016.

The VLGA will continue to work with councils, councillors and the community to support positive policy reform around these matters and urges the State Government to work with the sector in the interest of the local communities they represent.